new york state society of
NYSSCPA
certified public accountants
530 fifth avenue, new york, ny 10036-5101
www.nysscpa.org

April 9, 2004

Mr. Michael Glynn
Technical Manager
Audit and Attest Standards
AICPA
1211 Avenue of the Americas
New York, NY 10036

By email: mglynn@aicpa.org

Re: Exposure Draft of Proposed Statement on Standards for Accounting and Review Services – *Performance of Review Engagements*

Dear Mr. Glynn:

The New York State Society of Certified Public Accountants, the oldest state accounting association, represents approximately 30,000 CPAs that will implement the provisions proposed in the captioned exposure draft. NYSSCPA thanks AICPA for the opportunity to comment on its exposure draft.

The NYSSCPA Accounting and Review Services Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with the committee, please contact Ira M. Talbi, chair of the committee, at (212) 270-5263, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,

Jeffrey R. Hoops
President

Attachment

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NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON AICPA EXPOSURE DRAFT

Proposed Statement on Standards for Accounting and Review Services

Performance of Review Engagements

April 9, 2004

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The New York State Society of Certified Public Accountants
Accounting and Review Services Committee
Comments on Exposure Draft -- *Performance of Review Engagements*

General Comments

Most of the proposed changes involve additional performance requirements for review engagements as they relate to fraud, analytical procedures and inquiries. Except as noted, the proposed changes constitute acceptable improvements in the guidance for such engagements.

Specific Comments

1) Page 7, Paragraph 29, Sentence includes the terminology: "appear to be unusual"

This additional verbiage is unnecessary. It creates a question about what is unusual and creates an additional condition that might be unintended.

2) Page 8, Paragraph 30, contains the phrase "…less encompassing than those developed in an audit"

It would be helpful if the Committee could provide examples of situations in which the expectations developed by the accountant in an audit were less encompassing than those developed in an audit.

3) Page 8, Paragraph 31a.item 1) Add: "or an other comprehensive basis of accounting."

4) Page 8, Paragraph 31a. item 4) Replace "in the last several days of the reporting period " with "near the end of the reporting period"

"Last several days" defines a set period that may not apply in all circumstances.

5) Page 8, paragraph 31a. item 5) The intent of the inquiry concerning "The status of uncorrected misstatements identified during the previous engagement" may not be appropriate.

If misstatements were identified and uncorrected in the previous period, then they were either immaterial or a departure should have been taken in the review report. Why revisit such issues in the current period? If this is new required inquiry it should then be included in appendix H as a sample inquiry. If the Committee is adding the inquiry in appendix H then the inquiry should be limited to material misstatements.

6) Page 9, paragraph 31a. item 8) Add: “omissions and misstatements” to inquiries.

This addition will make the paragraph consistent with the illustrative representation letter in SSARS 9 Appendix F.

7) Page 10, paragraph 32d) Add: “omissions and misstatements”.

This addition will make the paragraph consistent with the illustrative representation letter in SSARS 9 Appendix F.

8) Page 11, footnote 20: the intent of this footnote should be indicated.

What “other means in addition to the documentation” would be acceptable? Please provide examples.

9) Page 12, paragraph 37c) Remove: “and factors considered in its development”

Documenting all “factors considered” in the development of the expectations would be extremely voluminous and would include items not ultimately relied on.

Appendix B

The last sentence of the first paragraph (top of page 13) of appendix B currently reads, “**The inquiries should generally be made of members of management with financial and accounting responsibilities.”** It should read, **“The inquiries should be made of appropriate members of management.”** This allows the exercise of some judgment in who should be interviewed and not limit it to accounting personnel (i.e. The CEO would be in a better position to discuss new business activities, commitments, litigation, etc.)

<u>General Section:</u>

Page 13, item 1h, last sentence, should read: “ **If so, has an evaluation been performed to determine whether or not a combination of these entities would be appropriate.”** A consolidation would not be appropriate for these kinds of entities and there is currently no requirement to combine.

Page 13, item 1j, should read **“Have any significant transactions or journal entries occurred or been recorded near the end of the reporting period.”** This wording more clearly expresses the intent of the inquiry. In addition, “at the end of the period,” would be better described as “near the end.” The use of the term “post-closing entries” may imply the use of certain software or accounting systems that may not be used by all CPAs and their clients and therefore may lead to confusion and misunderstanding of the intent.

Cash:

The use of the word **"Bank"** should be replaced with **"Financial Institution"** because of the diversity of financial institutions operating as financial intermediaries such as, but not limited to: banks, thrifts, insurance companies, securities firms, investment firms, finance companies, mutual funds, pension plans, and credit unions. Therefore, 2b and 2c should also replace **"Bank"** with **"Financial Institution."**

Investments:

For the sake of brevity, delete the first sentence on page 15, item 6b.
The second sentence should then be reworded as follows: **"Are derivative instruments properly measured and ....."** The first line is simply not needed.

Page 16 item 6j – This inquiry omits an acceptable method of accounting for investments. Therefore, we suggest that the **cost method** be added to the inquiry after the equity method.

Property and Equipment:

Page 16, item 7a – Since not all property and equipment should be stated at depreciated cost on the books, the sentence be revised to include or **"other such proper value."**

Accounts and short-term notes payable and accrued Liabilities:

For the same reasons noted above, the word bank should be replaced with financial institution. Therefore, item 9b. Should read; **"Are loans from financial institutions and other short-term liabilities properly classified in the financial statements?"**

Income and other Taxes:

Any specific reference to federal, state or local income taxes should be deleted and replaced with a general reference to all income tax authority. The exposure draft omits reference to local income taxes. Therefore, we suggest the following:

11a. Do the financial statements reflect an appropriate provision for all current and prior-year income taxes payable?

11b. Have any assessments or reassessments been received? Are there any tax authority examinations in process?

Revenue and Expenses:

Page 20, items 14e. and 14f. are not necessary. These inquiries would be covered by other inquires such as, item 15f, related to uncertainties and item 12d relating to contingencies.

<u>Other:</u>

The illustrative inquiries tried to identify specific disclosures that might be required. Although the inquires did not cover all required disclosures, barter and other non-monetary transactions are important areas where inquiries should be made. Therefore, we suggest the following inquiry be added:

15.e Are barter and other nonmonetary transactions properly recorded and disclosed?

<u>An overall observation of the inquiries.</u>

An overall observation about the illustrative inquiries somewhat contradicts the definition of a review. For example, page 6, paragraph 25, states:

"A review does not contemplate obtaining an understanding of internal control......."

Nonetheless, several new and previous illustrative inquires ask specifically about basic internal control. For example, are general ledger control accounts reconciled to subsidiary records? Are all bank accounts reconciled on a timely basis? Are accounts receivable subsidiary ledgers reconciled to the general ledger on a regular basis? When was the last time a physical inventory of property and equipment was taken?
The responses to these questions lead to obtaining an understanding of the internal control system. Therefore, these questions should be worded in such a way that their focus helps determine whether any material modifications are required. For example, **"What adjustments were necessary as a result of your reconciliation of the financial institution account?"**

<u>Areas not addressed by the exposure draft</u>

The exposure draft increases performance requirements for a review. It fails to address a significant divergence in practice concerning workpaper documentation for reviews. Since the Committee has raised the performance bar for reviews, it should also address documentation issues. The Accounting and Review Services Committee should address the same issue for compilations as well.

Because of the significant divergence in practice and the importance of compilations and reviews for certain CPAs, especially small practice units, it is imperative for the Committee to provide workpaper documentation guidance. Specifically, the Committee must address whether the workpapers can or should include bank reconciliations, investment schedules, account receivables and payables agings, fixed asset schedules, etc. Some firms include such workpapers as part of accounting services in a separate set of workpapers. Others exclude such workpapers fearing that inclusion will indicate a higher level of service. Some include these workpapers as part of the compilation or review. While additional accounting services clearly can be performed, the documentation requirements in terms of workpaper form and content, and whether such documentation indicates a higher level of service, must be explicitly addressed. The mere inclusion of these workpapers should not elevate the service to the level of an audit. The Committee is in the position to clarify these significant issues.